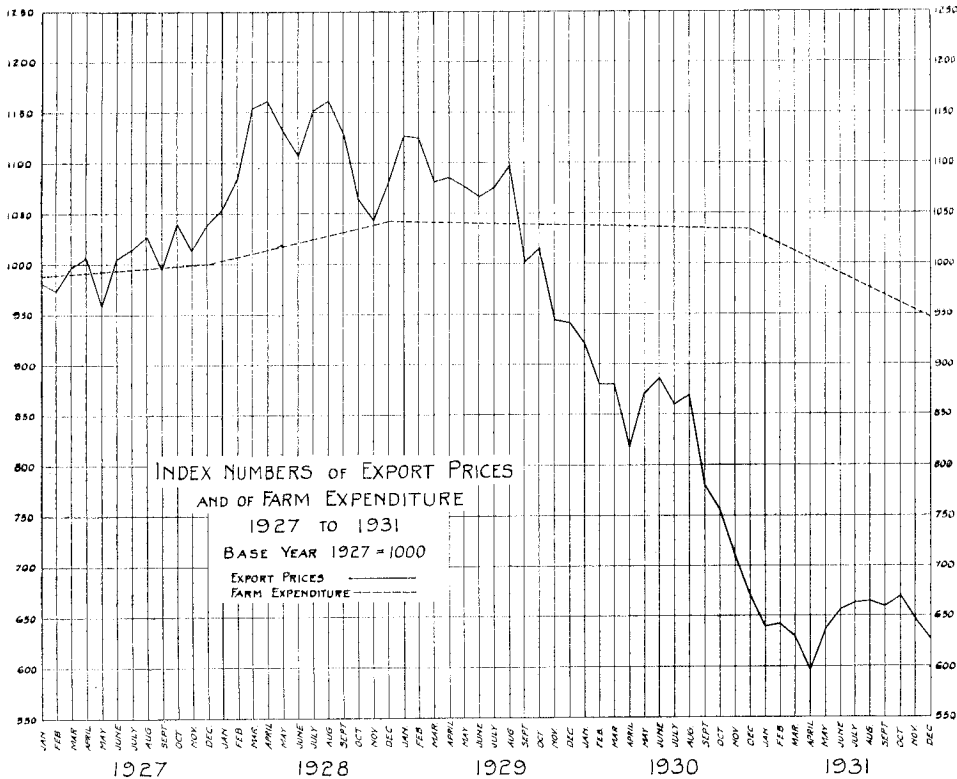


prices of his goods. Hence profit margins shrink rapidly and may disappear. This leads to a further curtailment of demand, so that a further fall in prices is necessary if output is to find a market. Since profit is the mainspring of enterprise and productive effort, production must fall off and unemployment increase. Hence the only



way in which economic recovery can take place is to cause the profits of enterprise to emerge or increase. Practically this means that a readjustment must occur between selling-prices and costs. The price disharmony, which is responsible for our troubles, is revealed by the following table :—

TABLE 1.—INDEX OF PRICES IN NEW ZEALAND.
(Year 1914 = 1000.)

Year.		Wholesale.	Imports.	Exports.	Farm Expenditure.	Retail Prices.	Nominal Wages (Male).
1914	..	1000	1000	1000	1000	1000	1000
1919	..	1703	1941	1671	1511	1567	1304
1924	..	1584	1555	1597	1586	1604	1533
1928	..	1417	1360	1520	1642	1618	1656
1929	..	1413	1355	1456	1636	1607	1658
1930	..	1376	1345	1144	1628	1562	1665
1931	..	1270	1322	874	1490	1447	1542

10. Since 1928, wholesale prices as a whole have fallen by about 10 per cent., wholesale prices of imports by about 3 per cent., retail prices by about 11 per cent., and money wages by about 12 per cent. During the same period export prices have fallen by about 43 per cent.; but the fall in the index number of farm expenditure, which provides an approximate measure of the movement of farm costs, is only about 10 per cent. Meanwhile, despite some economies in public expenditure, it has been found necessary to increase the rates of taxation and levy additional taxes.

11. The first effect of the disparity between the movements of different prices has been a substantial fall in the volume of imports that can be purchased by a given quantity of exports. Expressed in sterling, the fall in export prices has been of the order of 47 per cent., while the fall in imports has been of the order of 12½ per cent. Hence 60 per cent. more exports must be sent abroad at the present time to pay for a given quantity of imports. Further the sum due for services of Government and local-body debts payable overseas, which amounts approximately to £9 m. annually*, is fixed in terms of money, and this must be paid out of the proceeds from

* In the event of the Hoover moratorium on inter-governmental war debts and reparations, &c., being continued, this sum will be reduced by a net amount of about £1,300,000.

Changed
Purchasing-power
of Exports.